

July 11, 2018

California Customer Choice Project  
California Public Utilities Commission  
Policy and Planning Division  
505 Van Ness Avenue  
San Francisco, CA 94102  
[customerchoice@cpuc.ca.gov](mailto:customerchoice@cpuc.ca.gov)

**RE: Informal comments on California Customer Choice project (May 19, 2017 and June 22, 2018 en banc panels in particular)**

Dear Members of the California Public Utilities Commission,

I respectfully submit these informal comments. The views and opinions expressed in this letter are my own and do not reflect the official policy or position of my employer, the Massachusetts Institute of Technology. They strictly represent my views alone and are not presented on behalf of any other participant or entity.

This letter is intended to draw your attention to the broader ways that “choice” can be used to teach people to participate and engage in the electricity system. In your future gap analysis, I hope that you will consider a number of broader meanings of “choice”, that to the best of my knowledge, have not been expressed by anyone else in your proceeding. I will first describe why I am interested in this topic and your proceeding; next, I discuss various ideas about choice; and then I conclude with suggestions based on these various ideas.

I am an Associate Professor in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology. I study urban infrastructure, particularly energy and water networks, and my training and current research both combine engineering, environmental policy analysis, and economics. Before becoming a professor, I worked in government, finance, and utilities, and my research is intended to help governments, industry, advocates, and communities to work towards broader environmental goals.

For the past year or so, out of interest in the concept, I’ve been researching various ideas of choice in the electricity system. When talking to some CPUC staffers earlier this spring, they mentioned your proceeding and workshops which at the time were already underway. Since then, I’ve enjoyed watching your proceedings on customer choice. Both as an academic researcher and interested citizen, I admire and appreciate watching the serious, informed, and thoughtful discussions between yourselves and the participants about complex issues.

Your proceeding seems largely focused on managing the growth of retail choice within legislative mandates for reliability, affordability, and achieving environmental goals. Many of the participants in the May 19, 2017 en banc panel spoke out against the idea of introducing

“choice for choice’s sake”. I would like to argue *for* the essential value of choice. While choice may frankly sound like a marketing term, it is important to remember why it is effective and persistent, and what this aspiration means to the general public. The idea of choice is evocative because it is related to ideas of liberty, freedom, and democracy that are fundamental to American politics. This is why, I think, it has become a key framing term for deregulation or restructuring efforts. For example, in the course of researching Massachusetts’ efforts towards electricity restructuring, also in the 1990s, I found that almost all of the competing plans have “choice” in their titles, whether from the governor (“Power Choices”); the utilities (“Choice: New England”); or the legislature (“An Act to Allow Consumers the Choice to Participate in Electric Market Competition Through Their Communities”). The last plan, incidentally, was the first proposed legislation to enable community choice aggregation, or municipal aggregation as it is known in Massachusetts.

While psychologists and economists have found ample empirical evidence that people can make bad decisions in certain settings, we should think carefully about what this evidence means. One view – the “libertarian paternalist” view – is that choice architects, including but not limited to regulators such as yourselves, should therefore nudge individuals towards making choices that benefit society on the whole, either by limiting choices to those that are socially beneficial, or establishing defaults that reduce the time and cost of errors.<sup>1</sup>

As mentioned at the outset, however, my view is that we should instead work towards using active choosing as a key tool to educate and teach people about how to participate in the electricity system. To do this, I will articulate a number of reasons why we should expect people to make choices even if they are difficult and can sometimes result in errors. I will occasionally illustrate these reasons using the example of electric cars, because we (still) see choices about spending and use on mobility not only as an individual household choice, but also one that is affected by technology, regulation, and markets.

First, no matter how difficult decision-making can be, people learn when they make active choices. If there is a general consensus that the future of the electric grid will be increasingly distributed, decentralized, and decarbonized, then I encourage you to think about enabling people to make active choices that engage and inform them about the larger electricity system, so they can make progressively better decisions. It is hard to imagine a fully responsive or transactive grid working without a significant amount of education of, and engagement by, electricity users. To offer a simple example, when choosing to buy an electric car, sure, people do see manipulative advertising, but they can also talk to other owners; they read trusted sources of information like government advisories, Consumer Reports, or driving enthusiast magazines; and they go on test drives. All of these paths (social, media, experiential) are ways in which people learn and clarify what they want. This requires having forums not just where policy is set and decided, like this one, but one where people can learn what their choices are and what the implications may be.

Second, people may have personal and individual preferences that would-be choice architects cannot and do not know. To use the example of electric cars again, while one person’s purchase of a particular electric car model might seem ‘irrational’ in terms of lifecycle cost, to another person it represents their choice to reduce carbon emissions, and to another person it might

genuinely be cheaper because of their particular commuting pattern or leasing terms. While choice architects can tilt the scale towards socially-beneficial alternatives, it is important to preserve the existence of choice itself, since choice architects do not necessarily know what individuals want. The electricity system has offered people few if any choices in the past, other than how much to consume, and we can't learn about what people want unless we offer more choices rather than less.

Third, making active choices can change our subsequent attitudes and behaviors. While choice can sometimes be confusing, many energy decisions are not and do not need to be daily or top-of-mind choices. If choices are consequential and infrequent – should I buy an electric car? should I join a community solar farm or install rooftop solar? should I vote to enable my city to go CCA? – then we should want people to think about these choices, debate them, and even do their own research. Furthermore, even if it may seem sometimes that there is no noticeable change in getting your electricity from an IOU or CCA, our day-to-day perceptions are certainly framed by who we initially choose to deal with and how we are treated afterwards. Making an initial choice can build further engagement, awareness, and learning.

Fourth, when people decide on a course of action, either individually or collectively, they may trust others execute it for them. The more agents or intermediaries that exist the better, better to enable people to make choices or express their preferences, whether they are energy services companies, local governments, or utilities. The fundamental direction of electricity restructuring efforts, and the rather massive unpopularity of your IOUs, demonstrate a fairly broad and popular agreement that consumers dealing with just one company – i.e., vertically-integrated and regulated utilities – is not enough of a choice.

Fifth, and finally, for people to make active choices, choices must exist. The electric grid, like large sections of the economy, is dominated by incumbent firms that are able to stifle technological innovation through existing patterns of industry structure, financial investment, or governance.<sup>2</sup> Structural preferences for larger and established firms come from network economies, minimum sizes and scales, economies of scale, split incentives, the difficulty of collective action, and government and regulatory structure. In order to have future innovation and new services, it is necessary for both the government and market to preserve space for alternatives to grow.

I will conclude with a few broad suggestions based on these observations about choice. My first point, that people learn when they make active choices, means therefore that how and where people get their information becomes critical, and you have a critical role to play here. My second point about not knowing the preferences of individuals means that it is going to be necessary to educate and engage individuals through other forums, and not just assume that they are represented through a stakeholder process like this one. I make the third point about active choices changing future behavior to encourage you to think not just about developing a regulatory framework, but a series of end goals towards which you want to move electricity users. The fourth and fifth points, about the need for agents and intermediaries and about the necessity of preserving choices, are intended to encourage you to think not just about the existing interests and players, but what kind of electricity ecosystem you want to develop towards your state's goals of reliability, affordability, and decarbonization. Collaboration, negotiation,

regulation, legislation, and education will all be necessary, and all of those processes often start with an open conversation. So, I'd be interested in seeing this proceeding pursue a broader set of alternative goals and mechanisms around the notion of choice.

Please do not hesitate to contact me if you would like to discuss any of these ideas further.

Sincerely,

A handwritten signature in black ink that reads "Yun-Jen David Hsu" followed by a horizontal flourish.

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<sup>1</sup> Cass R. Sunstein, *Choosing Not to Choose: Understanding the Value of Choice* (Oxford University Press, 2015).

<sup>2</sup> William B. Bonvillian and Charles Weiss, *Technological Innovation in Legacy Sectors*, first edition (New York, NY: Oxford University Press, 2015).